

CEFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

The following are the Authority's bond issuance guidelines. These guidelines describe what CEFA would expect to see given a transaction with a particular rating (or no rating). The Authority reserves the right to use its discretion as necessary. However, each financing must be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such exception is a necessary part of a cost-effective and prudent borrowing strategy; conversely, the Authority has the flexibility to add additional requirements as circumstances warrant. Appendix A provides a written summary of these guidelines.

BOND RATING (1)	LOAN SECURITY PROVISIONS	BOND COVENANTS
I. A/A or higher rated debt (public offering)	<ul style="list-style-type: none"> General Obligation Pledge 	<u>Reporting Covenants:</u> <ul style="list-style-type: none"> Annual submission of Certificate of Compliance with CEFA Statute, Continuing Disclosure, financial and other covenants. Annual submission of Arbitrage Reports to Authority Annual Audited Financial Statements Interim internal financial information, if requested
II. BBB/BBB/Baa (public offering)	<ul style="list-style-type: none"> General Obligation Pledge Revenue Pledge Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond) Secured with real property or other assets with an appraised value of at least 100% of bond size (with appropriate release conditions), dependent on the overall asset base and financial strength of the applicant 	<u>Reporting Covenants:</u> <ul style="list-style-type: none"> Annual submission of Certificate of Compliance with CEFA Statute, Continuing Disclosure, financial and other covenants. Annual submission of Arbitrage Reports to Authority Annual Audited Financial Statements Interim internal financial information, if requested
III. Less than BBB/BBB/Baa rated debt or unrated debt	<ul style="list-style-type: none"> Must be privately placed (in both primary and secondary markets) with a "Qualified Institutional Buyer" as defined by SEC Rule 144A, promulgated under the Securities Act of 1933 Minimum denomination of \$100,000 <hr/> <ul style="list-style-type: none"> General Obligation Pledge Revenue Pledge Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond) Secured with real property or other assets with an appraised value of at least 100% of bond size (with appropriate release conditions), dependent on the overall asset base and financial strength of the applicant 	<u>Other Covenants</u> <ul style="list-style-type: none"> Financial and other covenants as appropriate
IV. Unrated debt for Equipment Program (for equipment purchases generally \$5 million or less) Private placements for colleges with current debt ratings of BBB/BBB/Baa or higher.	<ul style="list-style-type: none"> Must be privately placed (in both primary and secondary markets) with a "Qualified Institutional Buyer" as defined by SEC Rule 144A, promulgated under the Securities Act of 1933 Minimum denomination of \$100,000 	<u>Reporting Covenants:</u> <ul style="list-style-type: none"> Annual submission of Certificate of Compliance with CEFA Statute, Continuing Disclosure, financial and other covenants. Annual submission of Arbitrage Reports to Authority Annual Audited Financial Statements Interim internal financial information, if requested

(1) Refers to broad rating categories used by Standard & Poor's/Fitch/Moody's, irrespective of rating modifiers (i.e. - 1/2/3 or +/-)

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APPENDIX A

CEFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

The Authority will generally expect to see the following security provisions and bond covenants given a transaction with a particular rating (or no rating), as specified below, and reserves the right to use its discretion as necessary. Each proposed financing will be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such an exception is a necessary part of a cost-effective and prudent borrowing strategy; conversely, the Authority has the flexibility to add additional requirements as circumstances warrant.

The ratings shown are the respective categories of Standard & Poor's, Fitch and Moody's. The guidelines relate to the broad rating category and do not distinguish whether a rating includes a numerical (1, 2 or 3) or another ("+" or "-") modifier.

I. A/A/A or Higher Rated Debt (public offering)

1. Loan Security Provision: General Obligation Pledge

2. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CEFA Statute, Continuing Disclosure, financial and other covenants
- b. Annual submission of Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Interim internal financial information, if requested (e.g. – budgets, comparison of actual financial results to budget, projections, etc.)

II. BBB/BBB/Baa (public offering)

1. Loan Security Provisions:

- a. General Obligation Pledge
- b. Revenue Pledge (Lien perfected at closing, enforceable by Trustee, in the event of notice of default by Borrower)
- c. Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond)
- d. Secured with real property or other assets with an appraised value of at least 100% of bond size (with appropriate release provisions), dependent on the overall asset base and financial strength of the applicant

CEFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

2. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CEFA Statute, Continuing Disclosure, financial and other covenants
- b. Annual submission of Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Interim internal financial information, if requested (e.g. – budgets, comparison of actual financial results to budget, projections, etc.)

3. Financial and other covenants as appropriate, the specific terms of which would be at the discretion of the Authority and the credit enhancer, if credit enhancement is utilized.

III. Less than BBB/BBB/Baa Rated Debt or Unrated Debt

1. Loan Security Provisions:

- a. Must be privately placed (in both primary and secondary markets) with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933
- b. Minimum denomination of \$100,000
- c. General Obligation Pledge
- d. Revenue Pledge (Lien perfected at closing, enforceable by Trustee, in the event of notice of default by Borrower)
- e. Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond)
- f. Secured with real property or other assets with an appraised value of at least 100% of bond size (with appropriate release provisions), dependent on the overall asset base and financial strength of the applicant

2. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CEFA Statute, Continuing Disclosure, financial and other covenants
- b. Annual submission of Arbitrage Reports to Authority (including periodic construction spending progress reports, if applicable)
- c. Annual Audited Financial Statements
- d. Interim internal financial information, if requested (e.g. – budgets, comparison of actual financial results to budget, projections, etc.)

3. Financial and other covenants as appropriate, the specific terms of which would be at the discretion of the Authority and Qualified Institutional Buyer of the bonds.

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IV. Unrated debt for Equipment Program (for equipment purchases generally \$5 million or less) and Private Placements for colleges with current debt ratings of BBB/BBB/Baa or higher.

The guidelines in section “I” through “III” are based on the rating of the bonds to be issued. However, this is a special category where the guidelines relate to the type of transaction. The Authority will give special consideration to *small equipment private placements* and to *private colleges with current debt ratings of BBB/BBB/Baa or higher* that want to privately place their bond offerings. For these particular types of transactions, the loan security provisions and bond covenants are streamlined as outlined below.

1. Loan Security Provisions:

- a. Must be privately placed (in both primary and secondary markets) with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933
- b. Minimum denomination of \$100,000

2. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CEFA Statute, Continuing Disclosure, financial and other covenants
- b. Annual submission of Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Interim internal financial information, if requested (e.g. – budgets, comparison of actual financial results to budget, projections, etc.)